

RUSSELL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2007

Peak & Gerdes, LLP
Certified Public Accountants
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West Des Moines, IA 50265

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Russell Community School District

Officials

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
<u>Board of Education</u> (Before September, 2006 Election)		
Ken Burger	President	2007
Duane Bedford	Vice-President	2006
Mike Holmes	Board Member	2008
Anita Duckworth	Board Member	2008
Jacque Chester	Board Member	2007

<u>Board of Education</u> (After September, 2006 Election)		
Ken Burger	President	2007
Duane Bedford	Vice-President	2009
Mike Holmes	Board Member	2008
Anita Duckworth	Board Member	2008
Jacque Chester	Board Member	2007

<u>School Officials</u>		
Robert McCurdy	Superintendent	2007
Kathy Mills	District Secretary and Treasurer	2007
Paul Goldsmith	Attorney	2007
Sue Seitz	Attorney	2007

Russell Community School District

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Independent Auditor's Report

To the Board of Education of
Russell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Russell Community School District, Russell, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Russell Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principals.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2007 on our consideration of Russell Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Russell Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

August 10, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Russell Community School District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of district financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$1,785,631 in fiscal 2006 to \$1,844,976 in fiscal 2007, while General Fund expenditures increased from \$1,784,570 in fiscal 2006 to \$1,864,488 in fiscal 2007. The District's General Fund balance decreased from a deficit of (\$121,353) in fiscal 2006 to a deficit of (\$139,765) in fiscal 2007, a 15% decrease.
- The increase in General Fund revenues was due to an increase in property taxes paid by the property owners in the District, and an increase in state aid. However, this increase in revenue was offset by a related increase in the cost of salary and benefits. Another factor for the increase in General Fund expenditures is the increasing cost of open enrollment out payments. The result is that the General Fund financial condition continued to deteriorate in fiscal year 2007. In addition, we still have a large negative balance in the General Fund due to prior years deficit spending.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Russell Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how government services were financed in the short term as well as what remains for future spending. Fund financial statements report Russell Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The proprietary fund financial statements offer short-term and long-term financial information about activities the District operates like a business. In Russell Community School District, the school nutrition program operations are the only enterprise reported as a proprietary fund.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Russell Community School District Annual Financial Report

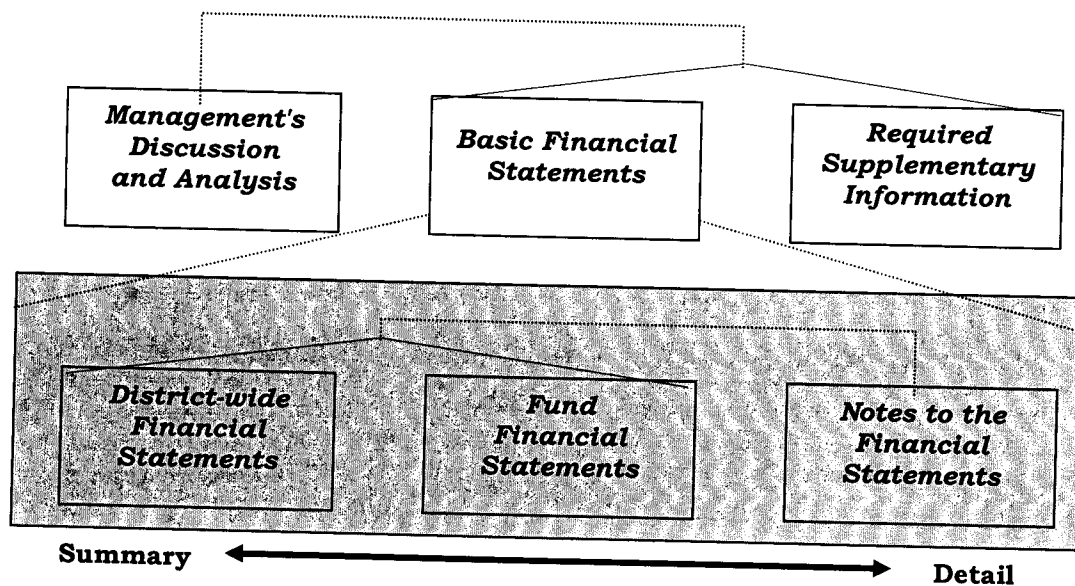


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are

one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

(Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2007-2006
Current and other assets	\$ 1,674	\$ 1,423	20	25	1,694	1,448	17.0%
Capital assets	199	219	4	5	203	224	-9.4%
Total assets	1,873	1,642	24	30	1,897	1,672	13.5%
Long-term liabilities	19	25	-	-	19	25	-24.0%
Other liabilities	1,387	1,259	1	1	1,388	1,260	10.2%
Total liabilities	1,406	1,284	1	1	1,407	1,285	9.5%
Net assets							
Invested in capital assets							
net of related debt	180	387	4	5	184	392	-53.1%
Restricted	81	56	-	-	81	56	44.6%
Unrestricted	206	(85)	19	24	225	(61)	100.0%
Total net assets	\$ 467	\$ 358	23	29	490	387	26.6%

The District's combined net assets increased by nearly 26.6%, or approximately \$103,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$25,000, or 45% over the prior year. The increase was primarily a result of an increase in the net assets of the Management Levy and Physical Plant and Equipment Levy Funds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$286,000. This increase in unrestricted net assets was primarily the result of monies received from the local option sales tax which was not spent.

Figure A-4 shows the change in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4 Changes in Net Assets (Expressed in Thousands)								
	Governmental Activities		Business type Activities		Total District		Total Change	
	2007	2006	2007	2006	2007	2006	2006-2007	
Revenues:								
Program revenues:								
Charges for service	\$ 81	\$ 90	20	22	101	112	-9.8%	
Operating grants, contributions and restricted interest	324	308	42	44	366	352	-4.0%	
Capital grants, contributions and restricted interest	-	14	-	-	-	14	-100.0%	
General revenues:								
Property tax	574	539	-	-	574	539	6.5%	
Income surtax	51	57	-	-	51	57	-10.5%	
Local option sales and service tax	122	103	-	-	122	103	18.4%	
Unrestricted state grants	914	875	-	-	914	875	4.5%	
Unrestricted investment earnings	35	25	-	-	35	25	40.0%	
Other	8	13	-	-	8	13	-38.5%	
Total revenues	2,109	2,024	62	66	2,171	2,090	3.9%	
Program expenses:								
Governmental activities:								
Instruction	1,419	1,335	-	-	1,419	1,335	6.3%	
Support services	481	499	-	-	481	499	-3.6%	
Non-instructional programs	-	-	68	71	68	71	-4.2%	
Other expenses	100	87	-	-	100	87	14.9%	
Total expenses	2,000	1,921	68	71	2,068	1,992	3.8%	
Change in net assets	\$ 109	\$ 103	(6)	(5)	103	98	5.1%	

In fiscal 2007, property tax and unrestricted state grants account for 70.6% of the revenue from governmental activities while charges for service and operating grants and contributions account for 100% of the revenue from the business type activities.

The Districts total revenues were approximately \$2.2 million of which \$2.1 million was for governmental activities and approximately \$62,000 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 3.9% increase in revenues and a 3.8% increase in expenses. Unrestricted state grants increased approximately \$39,000 and local option sales and service tax increased approximately \$19,000. The increase in expenses was primarily due to increased cost of salary and benefits and open enrollment out payments.

Governmental Activities

Revenues for governmental activities were \$2,108,507 and expenses were \$2,000,070. In a difficult budget year, the district was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 1,419	1,335	6.3%	1,081	1,001	8.0%
Support services	481	499	-3.6%	481	499	-3.6%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	100	87	14.9%	33	9	266.7%
Totals	<u>\$ 2,000</u>	<u>1,921</u>	<u>4.1%</u>	<u>1,595</u>	<u>1,509</u>	<u>5.7%</u>

- The cost financed by users of the District's programs was \$81,449.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$323,986.
- The net cost of governmental activities was financed with \$746,103 in property and other tax, including local option sales and services tax, and \$913,802 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$62,595 representing a 4.2% decrease from the prior year while expenses totaled \$68,797, a 2.3% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District kept its meal prices the same, but rising costs caused us to deficit spend in fiscal 2007.

INDIVIDUAL FUND ANALYSIS

As previously noted, Russell Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$231,207, well above last year's ending fund balances of \$114,737. The primary reason for the increase was the monies received into the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures, requiring the District to deficit spend in order to meet its financial obligations during the year. In addition, the General Fund still has a large negative balance due to prior years deficit spending.
- The General Fund balance decreased from (\$121,353) to (\$139,765), due in part to the negotiated salaries and benefits and the open enrollment out payments.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$16,279 in fiscal 2006 to \$18,485 in fiscal 2007. While revenues decreased, the District further decreased spending from the PPEL to increase the financial condition of the fund.
- The Capital Projects Fund balance increased from \$192,347 at the end of fiscal 2006 to \$304,435 at the end of fiscal 2007. Revenue increased approximately \$22,000 from fiscal 2007. In addition, approximately \$7,000 was spent from the Capital Projects Fund in fiscal 2007.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$29,464 at June 30, 2006 to \$23,262 at June 30, 2007, representing an decrease of approximately 21% due primarily to decreased revenue received by the District.

BUDGETARY HIGHLIGHTS

Over the course of the year, Russell Community School District did not amend its annual budget.

The District's revenues were \$22,723 less than budgeted revenues, a variance of 1%. Even though local tax revenue increased in fiscal 2007, a reduction in state resources caused the total amount received to be less than originally anticipated.

Total disbursements were less than budgeted, due to the Districts budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$203,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 9.4% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$23,841.

The original cost of the District's capital assets was \$655,000. Governmental funds account for \$647,000, with the remainder of \$8,000 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 38	38	-	-	38	38	0.0%
Buildings	70	75	-	-	70	75	-6.7%
Improvements other than buildings	59	63	-	-	59	63	-6.3%
Furniture and equipment	32	43	4	5	36	48	-25.0%
Totals	\$ 199	219	4	5	203	224	-9.4%

Long-Term Debt

At June 30, 2007, the District had \$18,882 in capitalized lease obligations outstanding. This represents a decrease of approximately 24.0% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-term Obligations
(Expressed in Thousands)

	Total District		Total Change
	June 30,		June 30,
	2007	2006	2006-2007
Capitalized lease obligations	\$ 19	25	-24.0%
Totals	\$ 19	25	-24.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Lucas and Wayne Counties are in an economic bind, fewer births, and fewer farm homes with school age children. Put together with higher academic expectations, teacher shortage areas, higher teacher pay and the high number of students who walk away with district funds because of open enrollment, which needs to be addressed very soon.
- The General Fund cash balances of the District have decreased over the past five years. This has caused great concern with the Iowa Department of Management and the Iowa Department of Education.
- The District has experienced declining enrollment for the past several years, it looks like that this trend will continue.
- Open enrollment out payments will counteract any increase in revenues for fiscal year 2008. Future reduction in expenditures must come from having less staff. This can be done with staff reductions and whole grade sharing of grades 9-12.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kathy Mills, District Secretary/Treasurer, Russell Community School District, 410 East Smith, Russell, Iowa, 50238.

Basic Financial Statements

Russell Community School District

Exhibit A

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 586,871	-	586,871
Other	336,346	15,853	352,199
Receivables:			
Property tax:			
Delinquent	18,342	-	18,342
Succeeding year	569,866	-	569,866
Accrued interest:			
ISCAP	6,628	-	6,628
Due from other funds	873	-	873
Due from other governments	155,591	-	155,591
Inventories	-	4,350	4,350
Capital assets, net of accumulated depreciation	198,695	3,932	202,627
Total assets	1,873,212	24,135	1,897,347
Liabilities			
Excess of warrants issued over bank balance	91,389	-	91,389
Salaries and benefits payable	130,153	-	130,153
Due to other funds	-	873	873
Accrued interest payable	733	-	733
Other liabilities	3,499	-	3,499
Deferred revenue - succeeding year property tax	569,866	-	569,866
ISCAP warrants payable	588,000	-	588,000
ISCAP accrued interest payable	3,812	-	3,812
Long-term liabilities:			
Portion due within one year:			
Capitalized lease obligations	5,963	-	5,963
Portion due after one year:			
Capitalized lease obligations	12,919	-	12,919
Total liabilities	1,406,334	873	1,407,207
Net assets			
Invested in capital assets, net of related debt	179,813	3,932	183,745
Restricted for:			
Management levy	18,870	-	18,870
Physical plant and equipment levy	32,633	-	32,633
Other special revenue purposes	29,182	-	29,182
Unrestricted	206,380	19,330	225,710
Total net assets	\$ 466,878	23,262	490,140

See notes to financial statements.

Russell Community School District

Statement of Activities

Exhibit B

Year ended June 30, 2007

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Governmental activities:						
Instruction:						
Regular instruction	\$ 959,346	25,944	146,739	-	(786,663)	-
Special instruction	203,051	-	99,925	-	(103,126)	-
Other instruction	256,530	55,350	9,753	-	(191,427)	-
	1,418,927	81,294	256,417	-	(1,081,216)	-
Support services:						
Student services	8,517	-	-	-	(8,517)	-
Instructional staff services	28,662	-	-	-	(28,662)	-
Administration services	241,470	-	-	-	(241,470)	-
Operation and maintenance of plant	146,230	75	-	-	(146,155)	-
Transportation services	55,893	-	-	-	(55,893)	-
	480,772	75	-	-	(480,697)	-
Non-instructional programs	231	80	-	-	(151)	-
Other expenditures:						
Facilities acquisition	27,164	-	-	-	(27,164)	-
Long-term debt interest	1,117	-	-	-	(1,117)	-
AEA flowthrough	67,569	-	67,569	-	-	-
Depreciation (unallocated)*	4,290	-	-	-	(4,290)	-
	100,140	-	67,569	-	(32,571)	-
Total governmental activities	2,000,070	81,449	323,986	-	(1,594,635)	-
Business type activities:						
Non-instructional programs:						
Food service operations	68,797	20,337	42,211	-	-	(6,249)
Total	\$ 2,068,867	101,786	366,197	-	(1,594,635)	(6,249)
General Revenues:						
Property tax levied for:						
General purposes					\$ 555,970	-
Capital outlay					17,557	-
Local option sales and services tax					121,919	-
Income surtax					50,657	-
Unrestricted state grants					913,802	-
Unrestricted investment earnings					35,422	47
Other					7,745	-
Total general revenues					1,703,072	47
Change in net assets					108,437	(6,202)
Net assets beginning of year					358,441	29,464
Net assets end of year					\$ 466,878	23,262

* This amount excludes the depreciation that is included in the direct expenses of the various programs

See notes to financial statements.

Russell Community School District

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2007

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments:				
ISCAP	\$ 586,871	-	-	586,871
Other	-	246,792	89,554	336,346
Receivables:				
Property tax:				
Delinquent	16,321	-	2,021	18,342
Succeeding year	512,278	-	57,588	569,866
Accrued interest:				
ISCAP	6,628	-	-	6,628
Due from other funds	25,826	85	2,475	28,386
Due from other governments	83,885	57,558	14,148	155,591
Total assets	\$ 1,231,809	304,435	165,786	1,702,030
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over				
bank balance	\$ 91,389	-	-	91,389
Salaries and benefits payable	130,153	-	-	130,153
Due to other funds	-	-	27,513	27,513
Other liabilities	3,499	-	-	3,499
ISCAP warrants payable	588,000	-	-	588,000
ISCAP accrued interest payable	3,812	-	-	3,812
Deferred revenue:				
Succeeding year property tax	512,278	-	57,588	569,866
Other	42,443	-	14,148	56,591
Total liabilities	1,371,574	-	99,249	1,470,823
Fund balances:				
Unreserved	(139,765)	304,435	66,537	231,207
Total fund balances	(139,765)	304,435	66,537	231,207
Total liabilities and fund balances	\$ 1,231,809	304,435	165,786	1,702,030

See notes to financial statements.

Russell Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

Exhibit D

June 30, 2007

Total fund balances of governmental funds (page 20)	\$ 231,207
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	198,695
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	56,591
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(733)
Long-term liabilities, including capitalized lease obligations, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(18,882)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 466,878</u></u>

See notes to financial statements.

Russell Community School District

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2007

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 547,436	121,919	63,876	733,231
Tuition	24,987	-	-	24,987
Other	26,053	4,357	65,522	95,932
Intermediate sources	1,470	-	-	1,470
State sources	1,104,518	-	14	1,104,532
Federal sources	140,512	-	-	140,512
Total revenues	1,844,976	126,276	129,412	2,100,664
Expenditures:				
Current:				
Instruction:				
Regular instruction	955,864	-	3,482	959,346
Special instruction	202,333	-	718	203,051
Other instruction	199,814	-	55,135	254,949
	1,358,011	-	59,335	1,417,346
Support services:				
Student services	8,460	-	57	8,517
Instructional staff services	28,522	-	140	28,662
Administration services	235,177	-	6,293	241,470
Operation and maintenance of plant services	127,470	-	17,362	144,832
Transportation services	39,279	-	3,232	42,511
	438,908	-	27,084	465,992
Non-instructional programs	-	-	231	231
Other expenditures:				
Facilities acquisition	-	7,196	19,968	27,164
Long-term debt:				
Principal	-	-	5,655	5,655
Interest and fiscal charges	-	-	1,337	1,337
AEA flowthrough	67,569	-	-	67,569
	67,569	7,196	26,960	101,725
Total expenditures	1,864,488	7,196	113,610	1,985,294
Excess (deficiency) of revenues over (under) expenditures	(19,512)	119,080	15,802	115,370
Other financing sources (uses):				
Sale of capital assets	1,100	-	-	1,100
Operating transfers in	-	-	6,992	6,992
Operating transfers out	-	(6,992)	-	(6,992)
Total other financing sources (uses)	1,100	(6,992)	6,992	1,100
Net change in fund balances	(18,412)	112,088	22,794	116,470
Fund balances beginning of year	(121,353)	192,347	43,743	114,737
Fund balances end of year	\$ (139,765)	304,435	66,537	231,207

See notes to financial statements.

Russell Community School District

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2007

Net change in fund balances - total governmental funds (page 22)

\$ 116,470

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures was less than depreciation expense in the current year, as follows:

Expenditures for capital assets
Depreciation expense

\$ 2,500	
<u>(23,151)</u>	(20,651)

Certain revenues not collected for several months after year end are not considered available resources and are deferred in the governmental funds.

6,743

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues were less than repayments, as follows:

Issued
Repaid

-	
<u>5,655</u>	5,655

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

220

Change in net assets of governmental activities (page 19)

\$ 108,437

See notes to financial statements.

Russell Community School District

Exhibit G

Statement of Net Assets
Proprietary Fund

June 30, 2007

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 15,853
Inventories	4,350
Capital assets, net of accumulated depreciation	<u>3,932</u>
Total assets	<u>24,135</u>
Liabilities	
Due to other funds	<u>873</u>
Total liabilities	<u>873</u>
Net Assets	
Invested in capital assets, net of related debt	3,932
Unrestricted	<u>19,330</u>
Total net assets	<u><u>\$ 23,262</u></u>

See notes to financial statements.

Russell Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Exhibit H

Year ended June 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 20,337</u>
Operating expenses:	
Non-instructional programs:	
Food service programs:	
Salaries	26,462
Benefits	5,586
Supplies	36,059
Depreciation	690
Total operating expenses	<u>68,797</u>
Operating loss	<u>(48,460)</u>
Non-operating revenues:	
State sources	210
Federal sources	42,001
Interest income	47
Total non-operating revenues	<u>42,258</u>
Net loss	(6,202)
Net assets beginning of year	<u>29,464</u>
Net assets end of year	<u><u>\$ 23,262</u></u>

See notes to financial statements.

Russell Community School District

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 20,337
Cash paid to employees for services	(26,462)
Cash paid to suppliers for goods and services	(37,755)
Net cash used by operating activities	<u>(43,880)</u>
Cash flows from non-capital financing activities:	
State grants received	210
Federal grants received	39,809
Net cash provided by non-capital financing activities	<u>40,019</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>47</u>
Net (decrease) in cash and cash equivalents	(3,814)
Cash and cash equivalents at beginning of year	19,667
Cash and cash equivalents at end of year	<u>\$ 15,853</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (48,460)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	3,668
Depreciation	690
(Increase) in inventories	(107)
Increase in due to other funds	329
Net cash used by operating activities	<u>\$ (43,880)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$3,668 of federal commodities.

See notes to financial statements.

Russell Community School District

Notes to Financial Statements

June 30, 2007

(1) **Summary of Significant Accounting Policies**

Russell Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Russell, Iowa, and the predominate agricultural territory of Lucas, Monroe, and Wayne Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Russell Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Russell Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in jointly governed organizations which provide services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas, Monroe, and Wayne County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out

in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Deferred revenue in the governmental fund financial statements represents the amount of assets that have not been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate vacation time; however, the unused amounts are not paid at termination, death or retirement. Consequently, no accrual is made in the financial statements for compensated absences.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. At June 30, 2007, the District had no reservations of fund balance.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted. However, the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 or No. 40.

(3) **Due From and Due to Other Funds**

The details of interfund receivables and payables at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue:	
	Management Levy	\$ 1,627
	Physical Plant and Equipment Levy	25,886
	Enterprise:	
	School Nutrition	873
Special Revenue:		
Physical Plant and Equipment Levy	General	2,475
Capital Projects:		
Local Option Sales Tax	General	85
		<u>\$ 30,946</u>

The due from and due to other funds amounts represent the correction of errors in initial recording.

4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 6,992

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ -	1,896	-	-
2006-07B	1/26/2007	1/25/2008	205,475	4,618	206,000	3,718
2007-08A	6/28/2007	6/27/2008	381,396	114	382,000	94
Total			\$ 586,871	6,628	588,000	3,812

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be

drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ -	120,000	120,000	-
2006-07B	-	9,000	9,000	-
Total	\$ -	129,000	129,000	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 38,000	-	-	38,000
Total capital assets not being depreciated	38,000	-	-	38,000
Capital assets being depreciated:				
Buildings	285,834	-	-	285,834
Improvements other than buildings	174,022	-	-	174,022
Furniture and equipment	146,753	2,500	-	149,253
Total capital assets being depreciated	606,609	2,500	-	609,109
Less accumulated depreciation for:				
Buildings	211,075	4,290	-	215,365
Improvements other than buildings	110,543	4,693	-	115,236
Furniture and equipment	103,645	14,168	-	117,813
Total accumulated depreciation	425,263	23,151	-	448,414
Total capital assets being depreciated, net	181,346	(20,651)	-	160,695
Governmental activities capital assets, net	\$ 219,346	(20,651)	-	198,695

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 35,785	-	27,503	8,282
Less accumulated depreciation	31,163	690	27,503	4,350
Business type activities capital assets, net	\$ 4,622	(690)	-	3,932

Depreciation expense was charged to the following functions:

Government activities:

Instruction:

Other

\$ 4,081

Support services:

Operation and maintenance of plant

1,398

Transportation

13,382

18,861

Unallocated

4,290

Total depreciation expense - governmental activities

\$ 23,151

Business type activities:

Food service operations

\$ 690

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capitalized lease obligations	\$ 24,537	-	5,655	18,882	5,963
Total	\$ 24,537	-	5,655	18,882	5,963

Capitalized Lease Obligations

In fiscal year 2005, the District entered into a capital lease for the purchase of a bus. The bus has been capitalized at cost.

Future minimum lease payments for the capital lease commitment are as follows:

<u>Year Ended- June 30</u>	<u>Amount</u>
2008	\$ 6,992
2009	6,992
2010	<u>6,992</u>
Total	20,976
Less amount attributable to interest	<u>2,094</u>
Present value of minimum lease payments	<u>\$18,882</u>

The interest rate on the capitalized lease is 5.45%, and is imputed based on the lessor's implicit rate of return.

(8) Operating Lease Agreements

The District is leasing two copy machines for 60 months at \$650 per month. Future required payments are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 7,087
2009	6,375
2010	6,375
2011	<u>6,375</u>
Total	<u>\$ 26,212</u>

Total rent expense during the fiscal year on these agreements was \$8,942.

(9) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$47,523, \$46,458, and \$42,860 respectively, equal to the required contributions for each year.

(10) Risk Management

Russell Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$67,569 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balance

The General Fund had an unreserved, undesignated deficit balance of \$139,765 at June 30, 2007.

Required Supplementary Information

Russell Community School District

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts	Budget to Actual Variance
Revenues:					
Local sources	\$ 854,150	20,384	874,534	762,197	112,337
Intermediate sources	1,470	-	1,470	-	1,470
State sources	1,104,532	210	1,104,742	1,240,185	(135,443)
Federal sources	140,512	42,001	182,513	183,600	(1,087)
Total revenues	2,100,664	62,595	2,163,259	2,185,982	(22,723)
Expenditures:					
Instruction	1,417,346	-	1,417,346	1,513,000	95,654
Support services	465,992	-	465,992	472,500	6,508
Non-instructional programs	231	68,797	69,028	102,055	33,027
Other expenditures	101,725	-	101,725	115,806	14,081
Total expenditures	1,985,294	68,797	2,054,091	2,203,361	149,270
Excess (deficiency) of revenues over (under) expenditures	115,370	(6,202)	109,168	(17,379)	126,547
Other financing sources, net	1,100	-	1,100	-	1,100
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	116,470	(6,202)	110,268	(17,379)	127,647
Balances beginning of year	114,737	29,464	144,201	317,541	(173,340)
Balances end of year	\$ 231,207	23,262	254,469	300,162	(45,693)

See accompanying independent auditor's report.

Russell Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted. However, the District exceeded its General Fund unspent authorized budget.

Other Supplementary Information

Russell Community School District

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 19,039	29,182	41,333	89,554
Receivables:				
Property tax:				
Delinquent	1,458	-	563	2,021
Succeeding year	40,000	-	17,588	57,588
Due from other funds	-	-	2,475	2,475
Due from other governments	-	-	14,148	14,148
Total assets	\$ 60,497	29,182	76,107	165,786
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 1,627	-	25,886	27,513
Deferred revenue:				
Succeeding year property tax	40,000	-	17,588	57,588
Other	-	-	14,148	14,148
Total liabilities	41,627	-	57,622	99,249
Fund balances:				
Unreserved fund balances	18,870	29,182	18,485	66,537
Total liabilities and fund balances	\$ 60,497	29,182	76,107	165,786

See accompanying independent auditor's report.

Russell Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Schedule 2

Year ended June 30, 2007

	Special Revenue			Debt Service	Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Lease	
Revenues:					
Local sources:					
Local tax	\$ 46,319	-	17,557	-	63,876
Other	3,078	55,350	7,094	-	65,522
State sources	-	-	14	-	14
Total revenues	49,397	55,350	24,665	-	129,412
Expenditures:					
Current:					
Instruction:					
Regular instruction	3,482	-	-	-	3,482
Special instruction	718	-	-	-	718
Other instruction	1,178	53,957	-	-	55,135
Support services:					
Student services	57	-	-	-	57
Instructional staff services	140	-	-	-	140
Administration services	6,293	-	-	-	6,293
Operation and maintenance of plant services	14,871	-	2,491	-	17,362
Transportation services	3,232	-	-	-	3,232
Non-instructional programs	231	-	-	-	231
Other expenditures:					
Facilities acquisition	-	-	19,968	-	19,968
Long-term debt:					
Principal	-	-	-	5,655	5,655
Interest charges	-	-	-	1,337	1,337
Total expenditures	30,202	53,957	22,459	6,992	113,610
Excess (deficiency) of revenues over (under) expenditures	19,195	1,393	2,206	(6,992)	15,802
Other financing sources (uses):					
Operating transfers in	-	-	-	6,992	6,992
Total other financing sources (uses)	-	-	-	6,992	6,992
Excess of revenues and other financing sources over expenditures and other financing uses	19,195	1,393	2,206	-	22,794
Fund balances beginning of year	(325)	27,789	16,279	-	43,743
Fund balances end of year	\$ 18,870	29,182	18,485	-	66,537

See accompanying independent auditor's report.

Russell Community School District

Schedule 3

Schedule of Changes
in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Foreign Language	\$ 1,312	-	-	1,312
All School Sports	258	13,803	10,395	3,666
Prom Gifts	1,142	3,150	3,199	1,093
Drama	868	-	-	868
Annual	(857)	2,477	4,956	(3,336)
Music	709	-	-	709
Drill Team	688	880	827	741
Cheerleaders	783	158	459	482
Concessions	2,143	10,276	10,988	1,431
Pop Machine	10,463	9,168	7,545	12,086
Student Activities	1,296	3,303	3,518	1,081
FFA	2,600	140	524	2,216
FCCLA	212	-	-	212
Beta	24	125	104	45
Class of 2012	5	-	-	5
Class of 2011	10	68	59	19
Class of 2010	71	486	-	557
Class of 2009	694	764	-	1,458
Class of 2008	1,859	3,184	3,294	1,749
Class of 2007	1,005	5,609	6,614	-
Student Council	282	232	343	171
Pre-school/H.S.	447	1,229	964	712
Q.S.P.	1,775	298	168	1,905
Total	<u>\$ 27,789</u>	<u>55,350</u>	<u>53,957</u>	<u>29,182</u>

See accompanying independent auditor's report.

Russell Community School District

Schedule 4

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Five Years

	Modified Accrual Basis				
	2007	2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$ 733,231	698,970	678,153	586,106	554,080
Tuition	24,987	33,870	26,085	47,546	79,995
Other	95,932	100,427	84,061	81,260	99,227
Intermediate sources	1,470	68	2,000	-	-
State sources	1,104,532	1,051,754	883,945	773,593	988,438
Federal sources	140,512	139,344	208,968	107,130	112,411
Total	\$ 2,100,664	2,024,433	1,883,212	1,595,635	1,834,151
Expenditures:					
Instruction:					
Regular instruction	\$ 959,346	911,176	915,992	772,138	878,210
Special instruction	203,051	163,978	96,436	208,467	157,733
Other instruction	254,949	258,849	259,563	162,770	192,472
Support services:					
Student services	8,517	12,166	26,319	9,715	2,658
Instructional staff services	28,662	37,538	29,070	33,751	21,264
Administration services	241,470	241,464	218,565	278,527	263,173
Operation and maintenance of plant services	144,832	149,593	141,531	159,729	133,497
Transportation services	42,511	43,472	63,942	38,300	116,460
Non-instructional programs	231	152	291	2,771	93
Other expenditures:					
Facilities acquisition	27,164	25,836	11,004	-	-
Long-term debt:					
Principal	5,655	6,361	18,267	15,843	17,586
Interest and other charges	1,337	631	1,761	2,865	1,883
AEA flowthrough	67,569	64,714	57,370	58,119	62,990
Total	\$ 1,985,294	1,915,930	1,840,111	1,742,995	1,848,019

See accompanying independent auditor's report.

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education of
Russell Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Russell Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 10, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Russell Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Russell Community School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when a design in the operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Russell Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Russell Community School District's financial statements that is more than inconsequential will not be prevented or detected by Russell Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in the internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Russell Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-07, I-B-07, and I-C-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Russell Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Russell Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Russell Community School District's responses and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Russell Community School District and other parties to whom Russell Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Russell Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

August 10, 2007

Russell Community School District

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should continue to review its procedures to obtain maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-07 Bank Reconciliations - The District performs bank reconciliations for all bank accounts. However, some transactions were either not recorded or were incorrectly recorded on the computerized general ledger. Since the reconciled bank balance is not compared to the book balance as recorded on the computerized general ledger, these differences were not detected by the District.

Recommendation - The District should reconcile, on a monthly basis, the bank balance to the book balance as recorded on the computerized general ledger, and any differences should be investigated in a timely manner.

Response - We will review this situation and take appropriate action as necessary.

Conclusion - Response accepted.

I-C-07 Financial Reporting - During the audit, we identified material amounts of receivables, payables and capital assets additions not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements. In addition, several instances were noted where there was miscoding of revenues or expenditures, and instances where journal entries were made to the accounting records which could not be clearly supported as to why the journal entry was made.

Recommendation - The District should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the District's financial statements. In addition, the District should ensure that all revenues and expenditures are properly coded, and ensure that all journal entries are properly supported by source documentation.

Response - We will double check these in the future to avoid missing any receivables, payables, or capital asset transactions. We will also take greater care in recording revenues, expenditures, and journal entries.

Conclusion - Response accepted.

Russell Community School District

Schedule of Findings

Year ended June 30, 2007

I-D-07 Receipt Procedures – As of audit fieldwork date, the District had not billed \$4,931 for open enrollment in fees for fiscal year 2007, and \$1,034 for a shared teacher for fiscal year 2007. Both of these amounts are due from neighboring Districts. It does not appear that the District was aware that these amounts were unbilled until we brought it to their attention.

Recommendation – The District implement procedures to ensure all monies due to them are received, and procedures be put in place to ensure adequate follow up on all delinquent amounts due to the District.

Response – We will implement this recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Russell Community School District

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the certified budget amounts. However, the District exceeded its unspent authorized budget for the year ended June 30, 2007.

Recommendation – The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response – We are in contact with the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Conclusion – Response accepted.

II-B-07 Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-07 Business Transactions – No business transactions between the District and District officials or employees were noted.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted. Certain invoices and minutes were not published in the newspaper as required by Chapters 279.29 and 279.35 of the Code of Iowa. Other invoices and minutes were not timely published pursuant to the above Code Sections. For closed sessions, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open meetings law.

Recommendation – All invoices and minutes should be published in a timely manner to ensure compliance with the Code of Iowa. The District should also ensure compliance with Chapter 21 of the Code of Iowa regarding closed sessions.

Response – We will implement these recommendations.

Conclusion – Response accepted.

Russell Community School District

Schedule of Findings

Year ended June 30, 2007

- II-G-07 Certified Enrollment – The supplementary weighting equivalent of students reported to the Iowa Department of Education on line 12 of the Certified Enrollment Certification Form for September 2006 was overstated by .72 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – We will contact the Iowa Department of Education and the Department of Management.

Conclusion – Response accepted.

- II-H-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policies were noted.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

- II-J-07 Payroll - In some cases, the District was unable to locate written authorization for payroll deductions. I-9's were either incomplete or not available on some employees. An instance was noted where there was not a signed employment contract. An instance was noted where sick leave taken was not recorded on the perpetual leave records. Instances were noted where IPERS, Federal and State wages were not properly computed.

Recommendation – The District should implement procedures to ensure written authorization is obtained for all payroll deductions, and that I-9's are complete for all applicable employees. Also, all employees should have signed employment contracts. In addition, all leave should be recorded on the perpetual leave records, and procedures should be implemented to ensure IPERS, Federal and State wages are properly computed.

Response - We will make changes as necessary.

Conclusion - Response accepted.

- II-K-07 Financial Condition – The General Fund had an unreserved, undesignated deficit fund balance of \$139,765 at June 30, 2007. One student activity account had a deficit balance at June 30, 2007.

Recommendation - The District should continue to monitor the General Fund and the student activity account and investigate alternatives to eliminate the deficits.

Response - We will continue to monitor the General Fund. Procedures have been implemented to increase revenues and decrease expenditures. We will also investigate alternatives to eliminate the deficit in the student activity account.

Conclusion - Response accepted.

Russell Community School District

Schedule of Findings

Year ended June 30, 2007

- II-L-07 Transfers – As of June 30, 2007, various transfers are required to be made as documented in note 3 of the notes to financial statements.
- Recommendation – The District make the transfers as noted.
- Response – We will implement the recommendation.
- Conclusion – Response accepted.
- II-M-07 Property Sales – The District sold a vehicle during the fiscal year. Chapter 297.22 of the Code of Iowa requires that property for sale by the District must be advertised by at least one insertion each week, for two consecutive weeks, in a newspaper having general circulation in the District. We noted that this procedure was not performed.
- Recommendation – The District follow the Code of Iowa requirements in regards to the disposition of property.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-N-07 Receipts – Nutrition Fund receipts are not timely deposited to the bank. As of June 30, 2007, the District was earning interest at a rate of .25% on a balance of approximately \$135,000 in the Schoolhouse Fund bank account. Current interest rates on savings accounts are at least 4% or higher.
- Recommendation – The District implement procedures to ensure Nutrition Fund receipts are timely deposited. In addition, to earn more bank interest, the District should consider investing excess funds in higher yielding investments.
- Response – We will review the above and take appropriate action.
- Conclusion – Response accepted.
- II-O-07 Official Depositories – A resolution naming official depositories has been approved by the District. The maximum deposit amounts stated in the resolution were exceeded at times during the year ended June 30, 2007.
- Recommendation – To ensure compliance with the Code of Iowa requirements, the District should implement procedures to ensure the depository resolution is not exceeded.
- Response – We will implement the recommendation.
- Conclusion – Response accepted.
- II-P-07 Disbursements – Instances were noted where Activity Fund invoices were not available to support the disbursements.
- Recommendation – Procedures should be implemented to ensure invoices are obtained for all Activity Fund disbursements.
- Response – We will implement the recommendation.
- Conclusion – Response accepted.